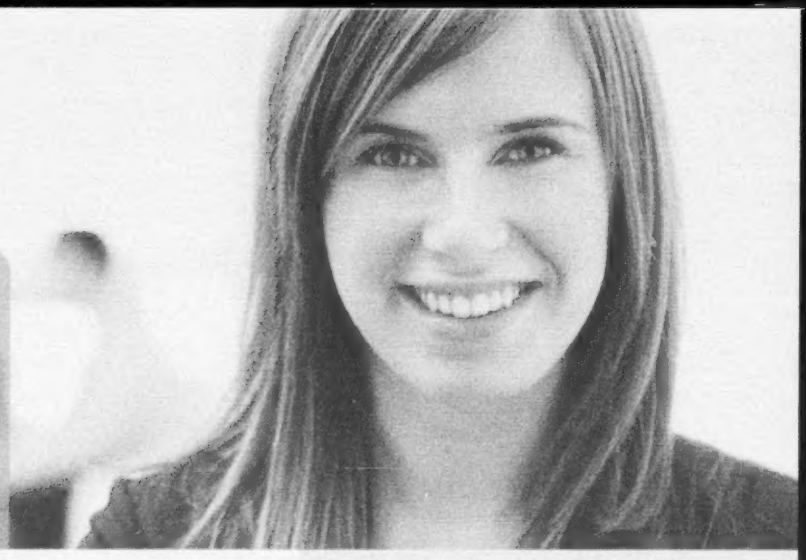
BDC
Entrepreneurs first

economic LETTER

DECEMBER 2014



CHRISTMAS FROM AN ECONOMIC PERSPECTIVE

Christmas is at our doorstep. Those of you who celebrate this holiday will soon, if you have not already done so, set up your Christmas tree and decorations, and buy toys for the children and/or gifts for your parents and friends. Those of you with more foresight may have already started preparing the traditional dishes that will adorn the dinner table: the cranberry jelly that will accompany the turkey, or the fruitcake that will be offered as dessert, for example.

The holiday period also generates plenty of activity in certain industries, starting with that of Christmas trees. In Canada, Christmas tree production generates agricultural revenues of $55 million and exports of $28 million, mainly to the United States. While Quebec is the country's largest producer of Christmas trees, the industry is also very important in Nova Scotia and, to a lesser degree, in New Brunswick.

Two other agricultural sectors are also closely tied to the holiday season: turkey and cranberries. In 2013, Canada produced 21.5 million turkeys, with a value of $396 million. The largest share of turkey production comes from Ontario (42%), followed by Quebec (20%) and British Columbia (13%). The value of turkey production is expanding: it rose by an average of 3.3% per year between 2007 and 2013. Cranberry production, whose annual value reached $94 million in 2013, is mainly concentrated in Quebec (49%) and British Columbia (4[illegible]%). This industry is showing strong growth: cranberry production advanced by an average of 9.5% per year between 2007 and 2013.[1] It should be noted that this berry has become increasingly popular over the years due to the health benefits that are attributed to it. While it is mainly popular during the holiday season, it is now consumed throughout the year by increasing numbers of people, and not only in the form of jelly.

The Christmas holiday season also greatly stimulates retail activity. In some sectors, December sales alone represent one fifth of total annual sales. This is the case for jewelry stores and for luggage and leather goods stores (see table). Among the major retailers, nearly half of their sales of toys, games and recreational items (including video games) take place during the last quarter of the year. It is also mainly in this sector that sales increase substantially before the month of December. In other sectors, such as jewelry and watches, electronic ▼

1 The values, percentages and growth rates mentioned in this paragraph come from Statistics Canada, or have been calculated based on Statistics Canada data, mainly tables CANSIM 001-0009, 002-0001 and 003-0018.

Canada
- Healthy growth in GDP
- Employment dips slightly
- The trade surplus shrinks
- Housing starts pull back, but home sales head up

United States
- Employment shoots up
- Housing market outlooks remain favourable
- Consumer and business confidence is up

Interest rates
Still no key interest rate hike on the horizon

Oil price

Canadian dollar

SME confidence

Credit conditions

Key indicators

BDC's Monthly Economic Letter is prepared by the Economic Analysis team from Marketing and Public Affairs and is based on a variety of public sources of economic data. The information in this letter is drawn from data released prior to December 6. Reliance on and use of this information is the reader's responsibility.

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devices, computers and cameras, books, gifts and novelty items, some acceleration in sales is observed in November, but nothing compared with the December surge. It would appear that it is easier to guess the wishes of children than those of parents and friends!

Percentage of annual sales achieved in December, by type of store

Type of store	% in December 2013
Jewelry, luggage and leather goods stores	21%
Electronics and appliance stores	16%
Sporting goods, hobby, book and music stores	14%
Clothing stores	14%
Department stores	13%
Beer, wine and liquor stores	12%
Shoe stores	12%
Home furnishings stores	11%
Miscellaneous store retailers	11%
Specialty food stores	11%
Miscellaneous store retailers	11%
Health and personal care stores	10%
Total retail trade	10%
Furniture stores	9%
Supermarkets and other grocery (except convenience) stores	9%
Automotive parts, accessories and tire stores	8%
Convenience stores	8%
Gasoline stations	8%
Motor vehicle dealers	7%
Building material and garden equipment and supplies dealers	7%
Other motor vehicle dealers	5%

Source: Statistics Canada, table CANSIM 080-0020

For a large number of retailers, Christmas season sales have a major impact on their annual sales figures. What should they expect this year? According to a survey of Canadian adults recently conducted by Deloitte, the majority of respondents plan to spend about the same amount as last Christmas (57.3%), some expect to spend more (8.4%) and the rest (34.3%) plan to spend less. Given that people usually spend more than they plan to, the analysts at Deloitte predict that despite these results, retail sales should increase moderately during the holiday season compared with last year, by 2.0% to 2.5%.[2]

The survey includes some interesting information about Canadians' consumption habits, in particular with respect to online shopping. First of all, the survey shows that a growing number of Canadians prefer to do their shopping online, rather than visiting a shopping centre (30.1% in 2014 versus 27.9% in 2013). This year, respondents plan to make approximately one third of their Christmas purchases online (30.6%). A large proportion shop around on the Internet: nearly half of them (44.8%) compare prices online, 37.5% search for coupons, discounts and information before proceeding with their purchase, 35% use social networks, blogs and online shopping sites to find gift ideas, and 33% seek out product evaluations and recommendations. Online shopping is more popular among young people between the ages of 18 and 29: the results of this age group are approximately 10 percentage points higher than those of the total pool of respondents.

These results show how crucial it is for retailers to develop e-commerce. According to the *Survey of Digital Technology and Internet Use* conducted by Statistics Canada, only 17% of small retail businesses and 23.0% of medium-sized retail businesses carried out sales online in 2013. The percentage climbs to 56.3% for large retail businesses. Thus there is a good deal of progress to be made in this area.

In conclusion, the writing team that prepares this monthly economic letter wishes you a very Merry Christmas and a wonderful year in 2015, and thanks you for being one of its faithful readers! ■

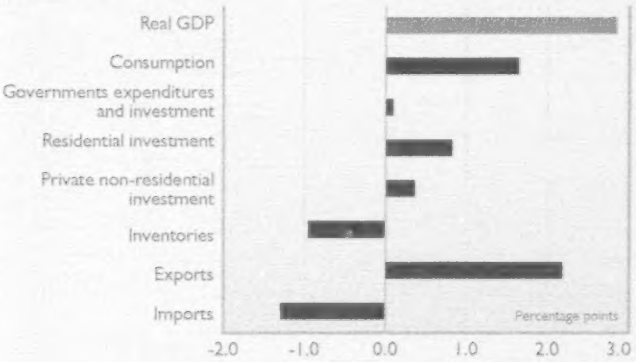
2 Deloitte, 2014 Holiday Retail Outlook, http://www2.deloitte.com/ca/en/pages/consumer-business/articles/holiday-retail-outlook-survey-2014.html

Real GDP growth was solid in the third quarter. For the first time in several quarters, non-residential investment increased. This bodes well for employment, whose growth has been slow during the year, especially for full-time jobs.

Healthy growth in GDP

Real GDP shot up by 2.8% in the third quarter, after 3.6% growth in the second quarter of the year and 1.0% in the first (annualized quarterly changes). Exports, consumer spending and residential investment were the main contributors to real GDP growth in the third quarter (graph). On the other hand, higher imports and lower business investment in inventories curbed growth. As expected due to the budget reform currently in progress, the public sector made little contribution to GDP growth. Finally, the contribution from private non-residential investment, although weak, was positive for the first time in several quarters. The robustness of exports may have started to give businesses the boost they need to make up their minds to invest.

Contributions to percent change in real GDP, third quarter 2014

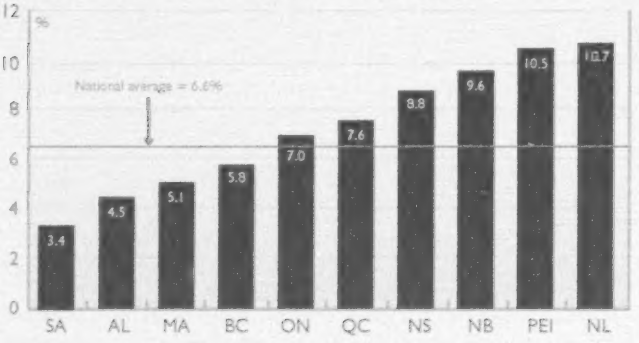


Source: Statistics Canada

Employment dips slightly

After two significant monthly increases, the job market contracted by 10,600 jobs in November; 16,300 part-time jobs were lost, while 5,700 full-time jobs were gained. The unemployment rate ticked up by 0.1% to reach 6.6% in November. Over a 12-month horizon, employment has expanded by 0.8%, but the growth in part-time jobs has been three times that of full-time jobs (1.9% versus 0.6%). Labour market conditions vary enormously from one province to another. For instance, the unemployment rate stands at just 3.4% in Saskatchewan, while it exceeds 10% in Prince Edward Island and Newfoundland and Labrador (graph). The expected acceleration in economic growth in 2015 should enable employment to pick up in most provinces.

Unemployment rate, by province (November 2014)

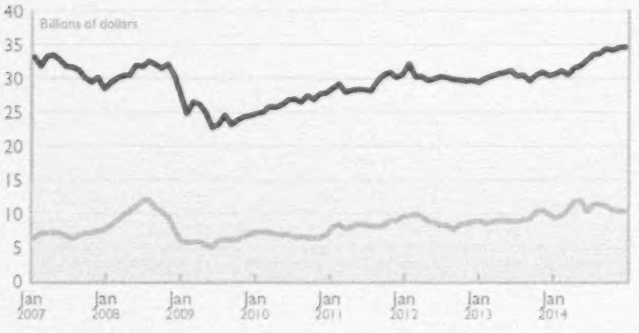


Source: Statistics Canada

The trade surplus shrinks

Merchandise imports rose by 0.5% in October while exports gained a meagre 0.1%. Consequently, Canada's trade surplus sank, from $307 million in September to $99 million in October. Exports to the United States expanded by 0.7%, but those to other countries fell by 1.8%. Exports of energy products, which represent 23% of total exports, have been stagnating since the beginning of the year. Exports of non-energy products followed an upwards trend during the first half of the year, but their growth has slowed in the past three months (graph).

Canadian exports (January 2007 to October 2014)

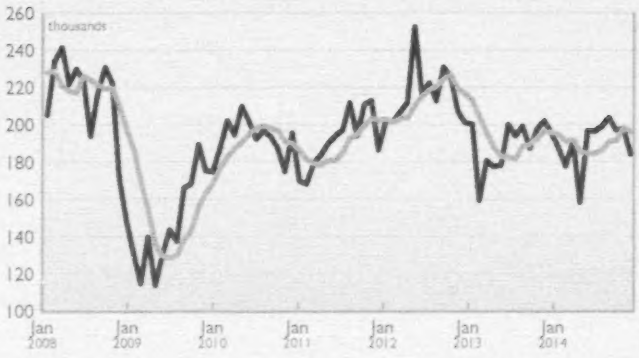


Source: Statistics Canada

Housing starts pull back, but home sales head up

The number of housing starts fell during the month, from 197,355 units in September to 183,604 in October. In urban centres, starts of single-family dwellings rose by 5.6% in October, while starts of multiple-unit homes tumbled by 13.9%. The housing starts trend, measured by the six-month rolling average, dropped off in October for the first time in six months (graph). The Canada Mortgage and Housing Corporation anticipates that the decline in starts of multiple-unit homes will continue, given the high number of condos currently under construction. Meanwhile, sales of existing homes edged up by 0.7% in October. After a slow start to the year, home sales have maintained a brisk pace of activity during the past six months, as reported by the Canadian Real Estate Association.■

Housing starts (January 2008 to October 2014)



Historical data
6-month moving average

Source: Statistics Canada

★ UNITED STATES

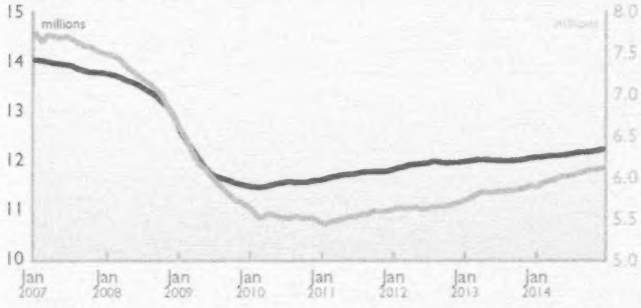
Back

The latest data confirm that the U.S. economy is firming up: employment is growing strongly, the housing market keeps improving and business confidence is high. These results suggest that economic growth will accelerate as expected in 2015.

Employment shoots up

In November, employment expanded by 321,000 jobs; this is the sharpest monthly increase since January 2012. This result brings the average monthly gains in employment since the beginning of 2014 to 241,000, a significant upswing compared with the 194,000 figure for 2013. The unemployment rate stayed flat in November, at 5.8%. Employment accelerated in nearly all sectors in November, but it was the professional and business services sector that won top honours, with a gain of 86,000 jobs. Construction and manufacturing gained 20,000 and 28,000 jobs, respectively. Conditions are continuing to improve in these sectors, which were hard hit during the recession (graph).

Employment in construction and manufacturing
(January 2007 to November 2014)



Manufacturing
Construction

Sources: U.S. Bureau of Labour Statistics

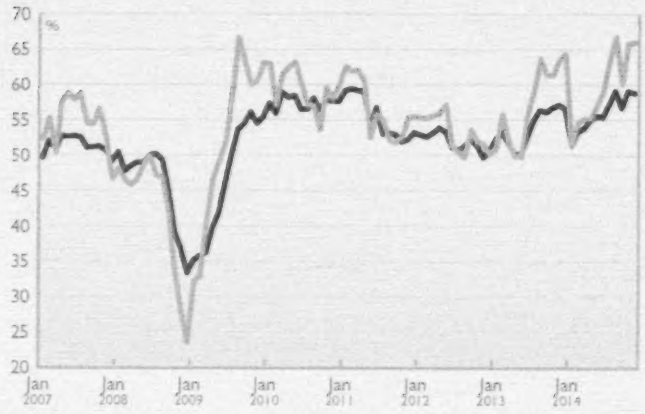
Housing market outlooks remain favourable

Starts of single-family homes increased by 4.2% in October, but those of multiple-unit projects plunged by 15.5%, resulting in an overall 2.8% decline in housing starts. Yet, over a long-term horizon, housing starts are still on the upswing. Meanwhile, home sales ticked up by 1.5% in October. The median price of existing homes stands at $208,300, up by 5.5% compared with October 2013. To sell off the inventory of homes at the current pace of sales would take 5.1 months, which is close to normal. Housing market conditions have greatly improved in recent years, in terms of both resales and homebuilding. Given the acceleration in economic growth and the constant progress in jobs, the outlooks are very favourable.▼

Business confidence remains high

The manufacturing purchasing managers' index compiled by the Institute of Supply Management (ISM) dipped by 0.3% in November, but at 58.7%, it is still high from a historical perspective (graph). The new orders sub-index gained 0.2% to reach 66%. The majority of respondents were very positive, estimating that demand for their products is now stronger than it was last year. Keep in mind that the ISM manufacturing purchasing managers' index is considered to be a measure of business confidence and a leading indicator of economic growth.■

Purchasing Manager Index, manufacturing sector
(January 2007 to November 2014)



Source: Institute for Supply Management

INTEREST RATES

Back

Still no key interest rate hike on the horizon

On December 3, the Bank of Canada decided to leave the key interest rate unchanged, which was no surprise to observers. In the press release that explained the decision, the central bank rejoiced in the fact that the Canadian economy is showing signs of a broadening recovery, but anticipated that the lower profile for oil and certain other commodity prices would hold growth in check.■

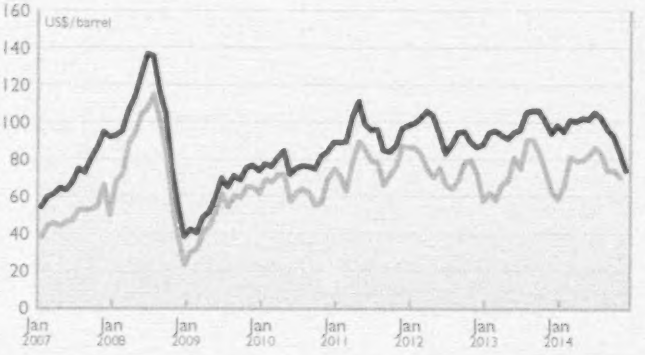
OIL PRICE

Back

The price of crude oil continues to fall

The price of oil, based on that of West Texas Intermediate, lost a further 11.6% of its value in November, taking the slump recorded since the summer close to 30% (graph). The increase in the global supply, in large part linked to expanded production of shale oil in the United States, and weaker outlooks for demand, are continuing to put downwards pressure on prices. The decision by the Organization of the Petroleum Exporting Countries (OPEC) not to cut back its production despite the lower prices has exacerbated the slump. In this decision, many analysts perceive a desire to stifle the production of American shale oil, which is profitable only when oil prices remain relatively high. But those exporting countries whose economy is overly dependent on oil revenues are likely to run into serious problems if prices remain low, and this could limit the price slump.■

Price of crude oil
(January 2007 to November 2014)



Source: Global Insight et Alberta Office of Statistics and Information

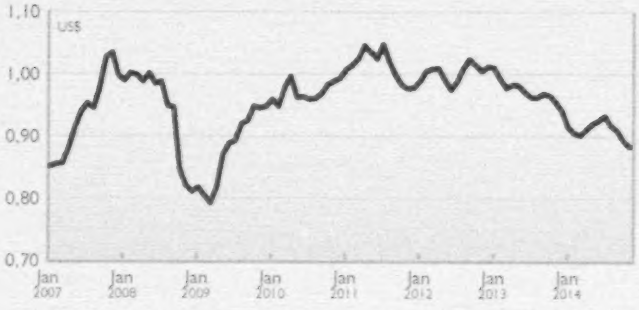
CANADIAN DOLLAR

Back

The loonie keeps depreciating

The loonie depreciated by 1.0% against the U.S. dollar in November. After four consecutive months of decline, it has lost a little over 5% of its value against the greenback. Over a longer horizon, we note that the exchange rate of the Canadian dollar against the U.S. dollar has been following a downwards trend for two years now (graph). This depreciation is partly linked to the downturn in commodity prices since 2012, especially those of metals and minerals, of which Canada is a net exporter. In the shorter term, it is divergences between Canadian and American monetary policies, along with the severe slump in the price of oil, that have made the strongest contributions to the loonie's depreciation. ■

Canada/United States exchange rate
(January 2007 to November 2014)



Source: Bank of Canada

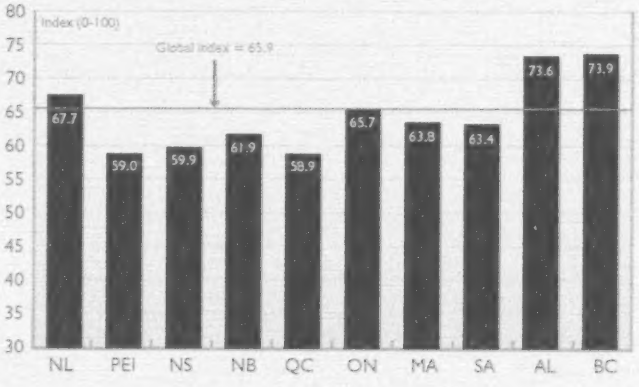
SME CONFIDENCE

Back

Overall, SME owners remain confident

The Business Barometer Index compiled by the Canadian Federation of Independent Business lost 1.8 points in November, landing at 65.9, thus completely wiping out the gains recorded in the previous month. While the index has shown some volatility in recent months, it has stayed relatively stable over a one-year horizon, oscillating around 65.0. From a regional perspective, SME owners in British Columbia and Alberta show the highest level of confidence, while those of Prince Edward Island and Quebec are the least optimistic (graph). Confidence is high in the personal services, information, arts and entertainment, and retail trade sectors, while it is low in the fields of hospitality, natural resources and construction. ■

Business Barometer, by province (November 2014)



Source: Canadian Federation of Independent Business

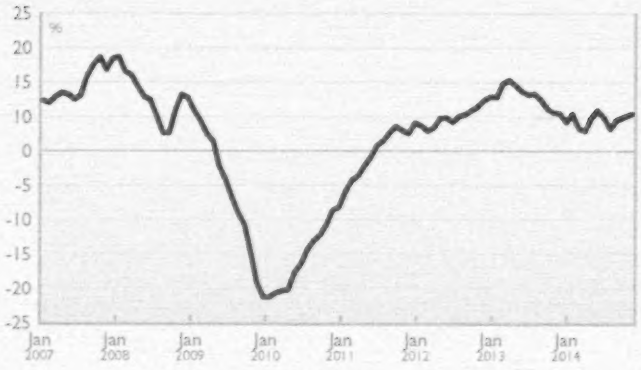
BUSINESS CREDIT CONDITIONS

Back

Continued vigorous growth in bank credit

Short-term credit granted to businesses by the chartered banks rose by 0.8% in October compared with the previous month, while long-term bank credit ticked up by 0.5%. Over a 12 month horizon, overall bank credit growth has remained vigorous, posting an increase of 10.4% in October (graph).■

Business credit from chartered banks
(annual change, January 2007 to October 2014)



Source: Statistics Canada

KEY INDICATORS—CANADA

Back

Key indicators—Canada

	Historical[1]				2014[2]						Forecast	
	2010	2011	2012	2013	Q1	Q2	Q3	Q4	Latest[3]		2014	2015
Real GDP (% growth)	3.4	3.0	1.9	2.0	1.0	3.6	2.8		Sep	0.4	2.3	2.5
Machinery and Equipment Expenditures (% growth)	10.6	8.1	1.9	-1.7	-5.0	1.4	5.2				-1.2	4.1
Pre-Tax Corporate Profits (% growth)	61.6	23.3	-6.7	0.7	26.6	6.7	3.9				8.7	5.1
Industrial Production (% growth)	6.0	4.1	1.4	1.8	4.7	4.1	1.3		Sep	1.5	3.6	2.5
Industrial Product Prices (% growth)	1.5	6.9	1.1	0.4	12.7	0.5	-1.2		Oct	-0.6	2.4	1.5
Non-Residential Construction (% growth)	17.3	15.9	13.5	5.0	-0.3	0.5	-1.9					
Housing Starts ('000 units)	192	194	215	188	175	197	199		Nov	196	190	183
Personal Expenditures (% growth)	3.5	2.2	1.9	2.5	1.5	4.4	2.8				2.5	2.3
Consumer Price (% growth)	1.8	2.9	1.5	1.0	2.8	3.7	0.3		Oct	0.1	1.9	1.7
Employment (% growth)	1.4	1.5	1.2	1.3	0.4	0.3	1.4		Nov	-0.1		
Unemployment Rate (%)	8.0	7.4	7.3	7.1	7.0	7.0	6.9		Nov	6.6	6.9	6.7
SMEs Confidence Index (CFIB)	66.7	66.4	63.9	63.9	64.2	65.4	64.7		Nov	65.9		
Manufacturers Confidence Index (CFIB)	68.5	67.3	66.7	63.8	64.9	64.6	69.0		Nov	62.5		

1. Annual growth rate
2. Quarterly growth, at annual rate
3. Month-over-month growth

Sources: Statistics Canada, Consensus Economics and Canadian Federation of Independent Business.

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